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REO Session Summary

November 16, 2010

Moderator

Alan Jaffa, Safeguard Properties

Panel

Vance Morris, U.S. Department of Housing & Urban Development (HUD)

Gardner Story, Best Assets

Al Espinoza, Innotion

Lance Kornicker, Department of Veterans Affairs

Cynthia Nierer, Rosicki, Rosicki & Associates, P.C.

Larry Garfinkel, Bendett & McHugh, PC

Paul Haymen, Tenant Access

Sonya Poindexter, Lender Processing Services

Caroline Reaves, Mortgage Contracting Services

Session Overview

This session discussed several topics pertinent to today's REO industry, which generated much dialog with the attendees. Included among the agenda topics were the validity of evictions and foreclosures, HUD's new approach on REO assets, REO marketability, and tenant considerations.

Evictions & Foreclosures

In recent months, much publicity has been given to the challenges of preventing invalid foreclosures through thorough review of processed documents. Ed Delgado introduced this topic during the State of the Industry session on the first day of the conference. Cynthia Nierer commented on the impact felt during the foreclosure process in those cases where proper procedure is not followed during default and eviction stages. She reiterated the importance of submitting notice of default to a tenant even if the servicer will not proceed with an eviction.

The 23 states affected by this issue are primarily judicial foreclosure states. Foreclosure timeframes have slowed as a result of the current housing crisis; two years ago the average foreclosure took 6 months, but now that average has doubled to 12 months. The delays caused by the recent controversy are ill-timed as we approach the winter months.

Robert Klein questioned the preparation needed by foreclosure attorneys to handle the inevitable volume increase once validity issues are resolved and foreclosures resume in earnest. Mr. Garfinkel pointed out that servicers will face the same challenges and will only be able to refer what they can review, thereby balancing the load for the attorneys.

HUD's New Approach to REO Servicing

HUD has revised its approach to managing and marketing REO assets. Vance Morris relayed his first-hand observation of the disparity between the appearance of HUD properties and those serviced by other entities in the past, as well as the lack of incentive to previous M&M contractors to sell assets. As a result, HUD is now using multiple contractors in each area to sell and maintain their properties. The transition to this model has begun and they hope to have it complete by the end of 2010.

During the fiscal year 2010, 100,000 properties were conveyed to HUD. A review of top HUD servicer portfolios confirms the staggering number that have the potential to be conveyed in a short amount of time. To handle this unprecedented growth, HUD may need to immediately exercise the full options in their new contracts.

Best Assets takes an aggressive approach toward selecting brokers. They hold daily training calls and use scorecards to assist in the performance improvement efforts.

Al Espinoza of Innotion confirmed the high volume of assets transitioned to the FSM vendors as this program has been implemented. He noted the challenges in communication with the MCM and with the pre-convey servicers as well as those of meeting the tight HUD timeframes.

Alan Jaffa questioned whether any changes to the pre-conveyance servicing model might assist in the REO transition. Mr. Morris relayed the desire to set up twice monthly calls with the asset managers, field service managers and Yardi. He acknowledged the struggles due to the asset load, program requirements and systems.

Kellie Chambers questioned the possibility of connecting the pre-conveyance servicers with the FSM contractors to work out property issues and circumvent the re-conveyance process. Vance acknowledged the idea but noted that the transition is still occurring and making this change would eliminate the MCM as the single point of contact. An MCM representative in the audience noted that the FSM, as well as the pre-conveyance servicer, should be able to see re-conveyance notes in P260.

The VA has seen volume increases, and they are working on streamlining processes to keep up with the added work load. There are currently 12,000 properties in their inventory. While they are selling approximately 1,200 per month, they are taking in 1800-2000 per month. However, they have managed to reduce average holding times from 9.5 to 5.5 months.

Marketability

The growing number of homes on the market has caused increased competition—not only from other REO homes but also with those that are owner-occupied. Property appeal is more important than ever and, as a result, more servicers and investors are performing property repair & rehabilitation. Caroline Reaves noted that field service vendors work closely with brokers, where available, to ensure the work completed matches the desired result for each neighborhood.

HUD considered incorporating a repair program during their contract restructure, but abandoned it due to time constraints. Mr. Morris noted his approval of the work he has seen from FSMs to date and he wants to test the appeal of the broom swept properties before “turbo charging” the program.

The 203(k) program was discussed briefly; the panel noted that this program never really took off and it is a niche program. Lenders should be responsible for qualifying a lender for this program.

HOA Dues

Al Espinoza introduced the discussion on challenges of paying HOA dues by relaying struggles to find HOA name and contact information in P260. Debbie Caruso of Homesource relayed her team’s approach of having contractors knock on neighbors’ doors to find out where they submit their HOA payments. Mr. Morris recommended a follow-up conversation on this topic as he had not previously been aware of any issues.

Many HOAs are taking a proactive approach to obtaining their payments since they have fewer residents to contribute to the total. Mr. Kornicker noted that the VA will do what is necessary to take care of any liens that arise from this issue since it cannot stand in the way of marketing the asset.

Disposition Options

Sonya Poindexter pointed out the merits of utilizing property auctions as a means of disposition. She noted these can be especially effective for tenant occupied properties as it eliminates the risk of vacancy, provides the investor with ready-made tenants and eliminates the costs of eviction and property preservation.

Paul Haymen discussed an alternative to REO disposition, stating that leasing these properties instead of selling them may ultimately lessen the loss. Although servicers may not be comfortable in a property management role, there are ways to mitigate risks as a landlord. There can be risk associated with leasing in certain demographics; Mr. Haymen recommended that servicers assess the immediate areas before attempting this program.

Tenant Issues

The industry continues to see tenant issues, and the general population is becoming more familiar with tenant rights. Over the next few years, Mr. Haymen anticipates seeing an increase in the number of tenant-occupied properties. The industry has also seen a continuous increase in the number of fraudulent leases. When assessing tenant-occupied properties, a habitability determination involves assuring the property is safe, sanitary and secure.

The session closed with comments on cash-for-relocation programs. HUD is hoping to update their cash-for-relocation guidelines and publish new information in January 2011 to address forward mortgage, reverse mortgage and tenant options.

Mr. Garfinkel stated that most states do not regulate the cash for relocation offerings, but Connecticut has a minimum of \$2,000 or twice the monthly rent amount, or twice the security deposit—whichever is greatest.